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EXECUTIVE SECRETARIAT

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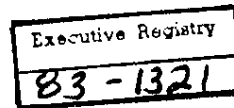
[Signature]
 Executive Secretary
 2/9/83
 Date



THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

March 8, 1983



UNCLASSIFIED

(With Confidential Attachments)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE ATTORNEY GENERAL
THE DIRECTOR, OFFICE OF MANAGEMENT
AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR
POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
~~✓~~ DIRECTOR OF CENTRAL INTELLIGENCE
CHAIRMAN, EXPORT-IMPORT BANK

SUBJECT Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled for Thursday,
March 10, at 10:30 a.m., in the Roosevelt Room. The agenda
is as follows:

1. Debt Strategy (Treasury oral report),
2. Export-Import Bank Charter (paper attached),
3. Polish Debt (paper attached),
4. Korea Cotton Sales (paper attached),
5. Export Administration Act (paper attached), and
6. East-West Studies (oral presentation by State).

Attendance will be limited to principal, plus one.


Donald T. Regan

Attachments

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(With Confidential Attachments)

EXIMBANK CHARTER RENEWAL

I. Issue

The Export-Import Bank Act expires on September 30, 1983. The SIG-IEP is asked to decide whether the Administration should request a simple five-year extension or propose an amendment to enhance further the Eximbank's mandate to be competitive in financing.

II. Background

NAC Alternates Meeting: On January 18, 1983, the National Advisory Council (NAC) Alternates met to consider various proposals to amend the Eximbank Act. The consensus among the agencies was that the Administration should support a simple extension of the Eximbank Act until September 30, 1988. The single exception was a proposal by Commerce and USTR that the Bank's mandate to be competitive be declared its principal mandate. Treasury, Eximbank, OMB, State, the Federal Reserve and IDCA opposed this proposal. (A summary of the meeting and the NAC decision memorandum are attached.)

Competitiveness Mandate: The Eximbank Charter directs the Bank to provide guarantees, insurance, and extensions of credit at rates and terms and other conditions competitive with those offered by other governments. The Act also provides that "loans made by the Bank shall bear interest rates determined by the Board of Directors of the Bank, taking into consideration the average cost of money to the Bank as well as the Bank's mandate to support United States exports at rates and on terms and conditions which are competitive with exports of other countries."

USTR and Commerce propose that the Bank's mandate to be competitive be legislatively declared its principal mandate. The objective of this proposal is to ensure that in making loan policy changes the Bank should give even more weight to the competitive needs of U.S. exporters and less weight than it has given in the past to its funding costs. It is not intended to require the Bank to match exactly the terms of foreign competition.

The genesis of proposals to strengthen the competitiveness mandate was the Eximbank Board's decision in July, 1981, to raise interest rates above the minimum interest rates in the Export Credit Arrangement, in the absence of similar increases by other countries. The Bank also imposed a 2 percent application fee. The purpose behind these actions was to combat the Eximbank's seriously deteriorating financial position, which had arisen from its efforts to match foreign competition during the period 1978-1981 when market interest rates surged dramatically. The Board actions placed Eximbank's

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rates 2-3 percent above rates set by some foreign countries; however, the Bank's rates at the time were as much as 5 percent below its cost of funds (10-year Treasury bonds) and 10-12 percent below the rates charged on Euro-credit syndications, the principal alternative source of funds for the Bank's borrowers.

Some agencies believe that Eximbank should have maintained its interest rates and fees closer to the foreign competition. The business community has been concerned that these Board actions, in conjunction with the Bank's long-standing practice of limiting direct credit cover, placed U.S. exporters at a competitive disadvantage vis-a-vis their foreign counterparts.

Other agencies believe, however, that Eximbank has in fact made competitiveness its principal mandate and raised interest rates only when required for financial stability. They point out that Eximbank remained largely competitive, even during this period of higher interest rates.

In the past year, the United States successfully negotiated increases in the minimum interest rates allowed under the OECD Arrangement on Export Credits. This, in conjunction with falling market interest rates, has now enabled Eximbank to offer interest rates which eliminate any gap between its rates and those offered by other governments.

III. Discussion

The proposal is to amend the Export-Import Bank Act to establish the Bank's mandate to be competitive as its principal mandate.

Supporters of the proposal argue that:

- By limiting the ability of the Bank's Board to raise its interest rates when market rates increase, the number of cases lost to foreign subsidized financing would decrease.
- The proposal would enable the Administration to diffuse pressures for legislation that would reduce further the Bank's flexibility.
- The proposal would reassure the business community of the Administration's responsiveness to its needs.

Opponents of the proposal argue that:

- The proposal is unnecessary. Eximbank already provides financing on terms and conditions which enable U.S. suppliers to compete for export sales. Even during the period of higher Eximbank interest rates, very few cases were lost because of financing.

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-- The proposal could be costly and would undermine the Administration's flexibility, because it would (1) make it more difficult for the Administration to limit the cost of export subsidies during periods of inflation, thereby sheltering exports relative to other sectors of the economy; and (2) would permanently lock Eximbank into providing subsidized financing, a policy step not heretofore taken.

-- Rather than diffusing Congressional pressures, the proposal would (1) give rise to legislative history which could be cited as grounds for requiring Eximbank to match precisely the terms offered by foreign competition, a position which all agencies oppose; and (2) run the risk of opening up the statute to an even more stringent competitiveness requirement, as well as opening it up to other potentially damaging provisions.

IV. SIG-IEP Decision

Support Proposal _____

Oppose Proposal _____

Summary of Meeting of
NAC Alternates
January 18, 1983

U.S. Export Credit Policy

The NAC unanimously reaffirmed the basic tenets of U.S. export credit policy:

- (1) The Administration opposes export credit subsidies.
- (2) Export credit subsidies should be reduced and eventually eliminated through international agreement; and
- (3) Eximbank credits should be targeted where the competition is greatest.

Export Credit Strategy

The NAC unanimously endorsed the following export credit strategy:

- (1) The United States should strongly resist any effort to lower the present interest rate minima in international export credit institutions, unless an automatic market-related system is adopted.
- (2) Eximbank should give more emphasis to guarantees and insurance, which would offset (a) capital market imperfections and (b) increased country risk problems. Direct credits would be targeted against subsidized foreign credits, if commercial rates again surge.

Treasury, Eximbank, OMB, State, IDCA and the Federal Reserve agreed that the Administration should resist any efforts to amend the Eximbank Act. USTR and Commerce wanted only to strengthen the Bank's competitiveness objective.

Eximbank Charter

The NAC unanimously agreed that the Administration should support the extension of Eximbank's Charter until September 30, 1988. The NAC made the following decisions on specific proposals to amend the Charter.

- (1) The NAC agencies were split on the proposal to emphasize the supremacy of the Bank's mandate to be competitive over its other objectives. USTR and Commerce

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supported the amendment, while Treasury, Eximbank, OMB, State, IDCA and the Federal Reserve opposed the amendment. The NAC unanimously opposed any proposal that would require Eximbank to match precisely the terms offered by foreign competition.

(2) The NAC unanimously opposed a proposal to require the President to appoint Directors to serve for fixed, staggered four-year terms.

(3) The NAC unanimously opposed a proposal to re-establish the Bank's Advisory Committee.

(4) The NAC unanimously opposed proposals to amend Section 1912 of the Export-Import Bank Act (Section 1912 enables Eximbank to provide domestic financing to offset the predatory financing practices of foreign credit agencies).

(5) The NAC unanimously opposed a proposal to establish an Eximbank "war chest."

(6) The NAC unanimously opposed proposals to modify Eximbank's practices on human rights and the environment.

(7) The NAC unanimously opposed proposals to remove Eximbank from the Federal budget.

(8) The NAC unanimously opposed a proposal to set aside specified portions of Eximbank's annual loan authority for transactions involving loans of \$5 million or less.

(9) The NAC unanimously opposed a proposal to require an annual set-aside of direct loan funds to support agricultural exports.

(10) The NAC unanimously opposed a proposal to remove Eximbank from Functional Code 150 of the Federal budget ("international affairs") and place it elsewhere.

(11) The NAC unanimously opposed a proposal to privatize Eximbank.

(12) The NAC unanimously opposed proposals (a) to increase the aggregate amount of Eximbank loans, guarantees and insurance that may be outstanding at any one time or (b) to increase the amount of Eximbank's immediate line of credit from the Treasury.